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RURAL-URBAN COMPLEMENTARITIES FOR THE REDUCTION OF POVERTY (RUCROP)



Identifying the Contribution of Savings and Credit Facilities

Proceedings of the RUCROP Stakeholders' Workshop Held on August 20th
2012 at VETA Mikumi, Morogoro, Tanzania

Edited by
Evelyn Lazaro, and
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7/3/13

Madam Chairperson,

I now have the pleasure to declare RUCROP project stakeholder workshop officially open.

I thank you all for your attention and patience.

Key Findings

Ilula Emerging Urban Centre

Kilima, F.T.M., Birch-Thomsen, T., Lazaro, E.A., Makindara, J.R., Saga, G. and Mshote, E.

Characterization of Ilula EUC and Tomato Value Chain

Ilula is located within Kilolo District Council in Iringa region, about 50 kilometres (km) east of Iringa regional headquarters, along the Tanzania-Zambia highway. Its location gives it some comparative advantages with respect to transport services over the other villages in the hinterland. Ilula was officially declared a township in 2006 as per local government Act No. 8 of 1982.

Historically, the natives of the study area are the *Wahhe* ethnic group whose main livelihood activities were crop farming and livestock keeping. The early development of Ilula started in the late 1950s and early 60s where the *Wabena* and *Wakinga* from Njombe and Makete, respectively; came to Ilula seeking for arable land and/or job opportunities at a Greek tobacco farm located at present day Image village. During the 1980s two major events happened having influence on the early development of the EUC. These events included first, the introduction of improved tomato seeds that substituted the low yielding local varieties and led to commercialization of tomato production. Secondly, was introduction of financial services through formal loans and credits by the CRDB Bank. This led to a second 'boom' in the in-migration to Ilula, in many cases from as far as Morogoro, Tanga, Kilimanjaro, Mbeya and Dar Es Salaam. In addition to the expanding tomato production during the 1990s, Ilula saw an increasing number of service functions and in

particular an increase in the number of shops and new types of business enterprises (made possible following the national liberalization of the economy and further furnished by the provision of electricity to the EUC in 1996). During the first decade of the 2000s, Ilula EUC continued to grow – both within the area of the tomato ‘industry’ but as well within general businesses. This growth can be attributed to a number of things: Establishment and registration of Mazembe SACCOS (2002); introduction of the mobile phone (2003); establishment of the tomato-market by TASAF; improvement of infrastructure and particular the improvement of the highway; and introduction of alternative lending agencies/NGOs.

The above development has meant that Ilula EUC presently has good access to basic and utility services such as education, health and credit services. Others are supply of electricity and communication products and service; markets for agricultural and livestock products and shops for hardware and other consumer goods. Many of the income generation activities within this EUC are linked to tomato value chain. However, the centre is also a major hub for a number of other activities such as consumer market for agricultural goods produced in the hinterlands, reliable source of social services (e.g. health and credit), supplier of industrial goods to hinterlands and general businesses involving local people and traders from distant places.

When the survey was conducted, tomato was the main commodity that was highly commercialized to the extent that it involved many actors within and outside the study area. The main actors in the tomato value chain are small scale farmers, businessmen and women, transporters and consumers. At the production level, there are also a number of actors such as input suppliers whose role is to supply

agro-inputs including tomato seeds, fertilizers, herbicides, pesticides and other inputs. Farmers are also supported by agricultural extension officers who provide advice on various aspects of tomato production as well as marketing. Certain aspects of agricultural advice are also provided by non-governmental organizations.

At the marketing level, there are several actors who play different roles including the ‘market masters’ who are also known as market brokers. Also, there are crate makers and people who are hired to sort and pack tomatoes in these crates ready for transportation to distant markets. People who own crates can rent out the crates or sell them to others. Other actors involved in tomato marketing are transporters who are responsible for transporting tomato from farm to the local market and from the local market to distant markets such as Dar Es Salaam, Morogoro, Nairobi or Mombasa.

There are also many other actors who provide various services. These include the coolies, food vendors and retailers of tomatoes. It is important to note that the commercialization of tomato has created ample employment opportunities that have attracted massive inflow of traders and other people seeking employment within the tomato industry and other businesses. Some of foreign people (e.g. buyers of tomato) commute between Ilula and other distant markets while others have settled at EUC and hinterland.

Rural-urban migration, urban livelihoods and rural linkages

The availability of social services have led to fast growth (urbanization) of the EUC and emergence of disparities in socio-economic development between the EUC and villages in the immediate hinterland including Itungi, Uhambingeto, Mlalu and Vitono Villages. These disparities have

encouraged both seasonal and permanent migration between the EUC and hinterlands and strengthened socio-economic interactions including physical flow of goods and services, access to investment opportunities and social services as well as transfers of capital/money through direct investment and remittances.

Evidence reveals that the percentage of migrants who settled in the rural hinterland was about 43% of the total sample. Out of these migrants some migrated from within Mazembe division (8%), others from areas within Iringa District (33%) and the rest from Dodoma, Mbeya, Kilimanjaro and Kilombelo (2%). Many of these migrants were engaged in various activities within the hinterland including production of crops such as tomato (33%), maize (18%), sunflower (17%) and beans (6%). Other migrants were engaged in casual employment (3%), permanent employment (2%), selling crops and livestock (4%) and other businesses (17%). According to the survey data, most of these activities were also performed by native/indigenous people - some were undertaken at the EUC and others in distant areas.

Rural livelihoods and economic status

It has been established that indigenous and migrants derived their earnings from activities undertaken at the EUC and hinterland and they remitted part of their earnings to family members in areas of origin. This implies that the emerging urban centre offers safety nets and encourages migrants and family members to help each other through remittances (both in cash and kind).

With respect to ownership of assets, the survey data show that many migrants did not own tangible assets other than houses, and migration was generally perceived as means to accumulate assets/wealth. Thus, attempts were made to

classify all respondents into three distinct groups to account for poverty with respect to ownership of houses. These groups included people categorized as: deprived (if they owned house(s) in their villages that were purely traditional with mud walls, floor and thatched with grass); subjected to deprivation (if they owned relatively better houses with burnt/concrete bricks but without corrugated iron and concrete/cement floor) and not deprived when their houses are modern (with burnt/concrete bricks, concrete/cement/tile floor and roofed with corrugated iron, tiles or similar materials).

Results do not show significant difference in poverty levels. About 64%, 35% and 1% of the non-migrants were deprived, subjected to deprivation and non-deprived, respectively. On the other hand regarding migrants, results show that 55% were deprived, 44% were subjected to deprivation and 1% was not deprived.

Investment and saving practices in Ilula and the rural hinterland

The presence of Ilula EUC allowed rural based residents to use lean season more effectively through integrating the rural- and urban-based activities. Evidence from the EUC, show that almost 25% of the migrants were engaged in various businesses/activities at the EUC including production of tomato, beans, vegetables, sunflower; selling crops and livestock and; doing businesses such as guest house, transportation, selling firewood, photographing and transport services. It is worth to note these migrants were also engaged in several activities in the hinterland as described in section 2.1.2. Survey results show that both migrants and non-migrants relied on income earned from tomato as capital for other businesses undertaken within the EUC, immediate hinterlands and distant places. More than

80% of the migrants and indigenous people were not members of financial institutions. These respondents also relied on own equity, borrowing from neighbours, earnings from casual labour and earnings from crop sales as their main source of income to finance consumption and investment. About 44% of the non-migrants and 38% of the migrants revealed that it was difficult to get access to financial services from formal and informal sources.

Results show that both migrants and non-migrants relied on own equity to finance their investments. Saga (2012) identified several formal and informal lenders at the EUC including Mazombe SACCOS, Mama Bahati and other informal lenders. However, his analysis suggests that lenders at the EUC are more likely to serve nearby than distant borrowers mainly due to difficulties related to establishing credit worthiness of distant borrowers along with transaction costs incurred to monitor credit use and source credit from lenders. Saga (2012) also shows that although both migrants and non-migrants received credit from these sources, chances for migrants having successful loan applications were lower than non-migrants. Many of the migrants who received credit at the EUC used it in agriculture, establishing business at the EUC and re-investing in origin homes.

When looking at the business owners in the Ilula-EUC, almost one third of the shops were established prior to 2000, and nearly half have been established within the last six years illustrating the continued interest to invest within the EUC. About three quarters of the businesses are owned by people who have migrated to Ilula EUC – out of which 70% reported to have migrated to Ilula solemnly with the purpose of investing into non-farm activities (business or job opportunities). Most of the business owners (70%) have had

experiences from businesses before the present one, either in Ilula EUC or in other parts of Tanzania. Many of the businesses have diversified from the original stores into having a more diverse portfolio (as part of the general development of their business) - others have specialised and/or invested in a similar type of business in the centre. The initial investments in the businesses are usually based on the owner's own resources/savings or on money borrowed from or invested by other family members (fathers, brothers, sisters etc.). Only few had access to the formal banking system and other financial institutions such as NMB and SIDO in the centre. Working capital, however, seems to be obtained more frequently through formal loans (SACCOS, Mama Bahati, 'Blac' and FINCA). In terms of re-investment practices, a large share of total accumulated surplus is used for reproduction of the household (including school fees). However, 71% of the business owners in Ilula EUC indicated some accumulation of capital used for investment. The highest frequency was found among indigenous/non-migrant business owners of which more than half invested into the existing business.

Summary

This case study has demonstrated that the emerging urban centre is a major market for underutilized/underemployed productive resources in rural area. The centre offer better opportunities for poverty reduction as rural people can also be employed at the EUC and earn extra income. The EUC is specifically important for asset accumulation among seasonal migrants from rural hinterlands who seem to be relatively disadvantaged with respect to ownership of assets and have poor access to investment capital.

Investment opportunities for people migrating to the EUC offer safety nets and encourage migrants and family

members in home areas to help each other through remittances (both in cash and kind).

The EUC offers a relatively wide range of financial services than hinterlands. These services are readily available for natives and migrants who settle at the EUC. However, these opportunities are not fully utilized by those from the hinterlands where such services are less developed. To source such services from the EUC, they have to incur travel and other transaction costs thereby rendering the credit use less profitable.

Igowole Emerging Urban Centre

Makindara, J. R., Larsen, M.N., Birch-Thomsen, T., Kilima, F.T., Mshote, E. and Msese, L.R.

Characterization of Igowole EUC and Tea Value Chain

Igowole ward is located in Igowole Division, Mufindi District in Iringa Region. Igowole was declared a township in 2006. The development of Igowole as a township is dated back in 1940s when the local Chief of the area moved the traditional court from Kasanga to Igowole. Igowole as a township consists of two villages namely Ibatu and Kisasa and ten sub-villages namely Mhamati, Mhemi, Pasosi, Fwagi, Kitonga, Mahaga, Ihanga, Ligu, Kafufu and Kitamvanga. The people who are living in Igowole own tea farms which are located 4-30 km away in other villages of Kasanga, Luhanga, Ihomasa and Ikwega. Igowole population based on 2002 census is 6,214 and comprises of 1,599 households. However, 2007/08 estimates shows that the population has grown up to 6,531. Associated with this development, the urban centre is being consolidated and becoming increasingly densely populated. The housing and business areas have been expanding, notably on the fringes towards Kasanga, where a new business/shopping area is under construction. The majority of people living in Igowole are *Wahhehe* who are the original inhabitants followed by *Wabena* from Njombe and *Wakinga* from Makete.

Administratively, Igowole Division is headed by a Divisional Secretary while the Wards are administered by Ward Executive Officers (WEO). Other officials in the wards are Ward Agricultural and Extension Officers (WAEOs) and Ward Community Development Officers (CDOs). Social services available in Igowole include electricity (since 1990),